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MONTHLY PROJECTIONS
August 1988

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WHAT STOPPED THE GROWTH TRAIN IN AUGUST?

Just as everyone was becoming convinced that the economy was overheating, the August employment report indicated that activity has stalled. While more data will be needed to confirm softness in industrial activity during the month, the employment report received support from the survey of purchasing managers and even from sensitive prices. Moreover, a spurt in initial unemployment claims during the latter part of July seems to pinpoint when industrial weakness developed. Now the question is why did this train stop and how long will it be stalled?

Some analysts believe that the weakness recorded in August is nothing more than shifting seasonal patterns. Prior to the recent wave of modernization in some of the labor-intensive apparel and textile industries, many firms used to shut down plants for firmwide vacations during July. A measured spurt in industrial production along with strong employment gains this July may have been because seasonal factors were anticipating such plant shutdowns. However, with increased capital intensity, running machines is preferable to idling them. Similarly, the traditional automobile model changeover during the summer has been dramatically reduced. Thus, seasonal factors are distorting economic activity during the summer. Initially, the seasonal forces overstated activity but they must then understate performance when the post-vacation surge does not materialize.

These shifting seasonal patterns probably are developing and textile employment did fall on a seasonally adjusted basis in August (a condition consistent with seasonal distortion interpretations). However, seasonal factors do not appear to account for a substantial drop in the workweek. Moreover, when seasonal distortions also surfaced last year, strength early in the summer was not reversed until September. This suggests that some of the August weakness may be other than distortions.

A second explanation for the stalled economy is the impact of Federal Reserve restraint. From March through August, the federal funds rate increased 1.5 percentage points. At the same time, M1 slowed to less than a 5% annual rate of growth. However, the monetary base continued to grow at a 7.5% annual rate over that period. Thus, portfolio shifts associated with rising short-term interest rates rather than substantial restraint upon growth in the monetary aggregates could have been responsible for slow monetary growth. In August, however, the Federal Reserve's discount rate move, followed by further tightening in the federal funds rate, probably reflects significant Federal Reserve restraint. However, August restraint by the Federal Reserve should not lead to August slowing in economic activity. The lags in response to changed monetary policy are longer than that. Nevertheless, the Federal Reserve definitely is showing restraint which will lead to further moderate growth in economic activity later this year.

A third explanation for the slowing in August is the "inherent dynamics" of the economy. Typically, this usually means a response to some economic excess, such as overbuilding or an inventory glut. Overbuilding certainly can be observed, but construction adjustments appear to be orderly at the present time. Moreover, construction expenditures rose in the latest reported month by 1.2%. However, construction contracts are beginning to fade rapidly.

No evidence of excess inventories is apparent. Automobile inventories, which periodically presented problems in the past two years, are no longer burdensome. In July, domestic sales were at 7.8 million units while domestic production was only 7.1 million at annual rates. Other inventories also appear to be in line with shipments or sales.

However, inventories abroad of exported goods may have increased. In the past four quarters, after adjustment for inflation, exports rose 20%. Clearly, American competitiveness improved over that time as a result of the dollar's fall, but such a surge of exports would imply a displacement of home goods by U.S. exports. Such displacement would imply that the U.S. was growing at the expense of the rest of the world. However, most indicators suggest that all industrial countries are growing rapidly. Although the evidence is indirect, this suggests that a significant portion of American exports are being held in warehouses abroad. The 2.4% decline in exports during June may have been the beginning of an adjustment to these excess inventories. If so, inventory adjustments probably will take a few more months. Thus, manufacturing activity could show little growth until fall data begin to be generated.

If a significant portion of this temporary weakness is the result of reduced export flows, trade deficits should begin rising again. This, in turn, should once again exert downward pressures upon the dollar's value. For that reason, the dollar should be trending lower through the remainder of this year.

Although dollar weakness eventually will increase inflationary pressures, the pause in industrial activity certainly stays the hand of the Federal Reserve. After all, there is a possibility that previous Federal Reserve restraint has contributed to current economic slowing. The Fed almost certainly will want to wait a little longer to see how much slowing will materialize before deciding whether any further tightening is needed. This insures minimal change in short-term interest rates until after the presidential elections.

Initially, the bond market may view stability in short-term rates as a sign that inflationary pressures are easing. Therefore, a significant rally in long-

term bonds also is anticipated. However, interest rates should not fall significantly below 9% as measured by the yield on the thirty-year government bond. After November, the economic pause should end, while inflationary fears from a declining dollar should once again surface. At that time, the Federal Reserve probably will move toward further Federal Reserve restraint. In short, the pause probably has postponed rising inflation, but it has not reversed the inflationary pressures that have been gradually growing in the labor markets.

Quarterly Profile of GNP

NOTE: After removing $9.6 billion at annual rates from measures of GNP in the second quarter, the drought is assumed to reduce GNP by $17 billion from where it otherwise would be in the third quarter and $32 billion in the fourth quarter. A return to normal crop production is expected in the first quarter of 1989, thereby raising that quarter's totals by $32 billion. As a result, growth rates are being reduced by 1.0% in 1988-2, 0.6% in 1988-3, and 1.4% in 1988-4. Economic growth then is enhanced by 3.2% in 1989-1. For annual averages, real growth is reduced by 0.4% in 1988 and enhanced by an equivalent amount in 1989.

	1988-2	1988-3	1988-4	1989-1	1989-2	1989-3	1988 Annual	1989 Annual
Real:	3.3	2.6	1.8	4.7	1.4	1.8	3.9	2.7
Price:	5.1	4.4	4.3	4.6	6.2	5.1	3.2	5.0
Nominal:	8.3	7.1	6.2	9.5	7.7	7.0	7.2	7.9

Monthly Statistical Highlights for August 1988

Personal income +0.7%; savings rate 4.4%; personal consumption +0.6%; retail sales +0.7%; auto sales 10.9 million units; housing starts -0.7%; housing permits -2.2%; construction expenditures -1.3%; business inventories +0.6%; orders for durable goods +0.7%; orders for nondefense capital goods -0.4%; industrial production -0.2%; CPI +0.5%; PPI +0.6%; consumption deflator +0.4%; leading indicators +0.1%; currency index +1.3%; equity index -0.7%; real GNP(AR) +1.2%; M1(AR) +0.3%; M2(AR) +1.9%.

Monthly Statistical Highlights for September 1988

Payroll employment +258,000; index of hours worked +0.7%; household employment +383,000; civilian unemployment rate 5.4%; personal income +0.6%; savings rate 4.5%; personal consumption +0.4%; retail sales +0.3%; auto sales 10.9 million units; housing starts -1.3%; housing permits -1.0%; construction expenditures +0.3%; business inventories +0.6%; orders for durable goods +1.4%; orders for nondefense capital goods -4.0%; industrial production +0.1%; CPI +0.4%; PPI +0.4%; consumption deflator +0.4%; leading indicators +0.3%; currency index -2.3%; equity index +1.7%; real GNP(AR) +1.2%; M1(AR) +7.4%; M2(AR) +7.5%.

Commentary

Employment - Following an unusually late employment survey last month, the employment survey was unusually early for August. As a result, the less than expected increase in payrolls could have been a result of the survey week. However, the increase in the unemployment rate as well as the sharp reduction in the workweek cannot be attributed to a survey problem. Here, however, seasonal fluctuations could have been a factor. Although the employment statistics clearly revealed sluggishness in August, previous upward revisions in June and stronger performance in July than anticipated when our forecast was created have merely brought third-quarter average employment conditions into conformity with forecast anticipations. If the workweek snaps back, as expected in September, activity in the third quarter still will exceed forecasted values.

However, two areas of the employment report were unusual. First, the labor force is growing more rapidly than had been anticipated. This appears to be the result of greater entrance by females than previously anticipated. Because the male unemployment rate rose sharply in August, it is possible that we are seeing spouse work search in an effort to preserve household incomes. This would suggest more permanency in the newly unemployed than had previously been observed in this cycle. Second, the hourly earnings index showed minimal change in August. This lessens concern about the inflationary impact from rising wage pressures.

Personal Income and Outlays - Wage and salary income spurted while farm income declined sharply in July. Further declines in farm income are not anticipated, as some settlements of drought insurance already have been dispersed. In addition, rising interest rates should lead to significant gains in personal interest income.

An anticipated spurt in tax liabilities did not develop. As a result, the growth of tax liabilities has been adjusted downward, although the reason for this discrepancy is not totally evident. Of course, this leads to greater growth in disposable income, which is expected to raise the savings rate from what had previously been anticipated.

Of course, higher disposable income also will raise outlays relative to the forecast. Unit auto sales have performed well in August, leading to a slight increase in durable goods outlays. Higher food and gasoline prices will be reflected in higher spending for nondurable goods. On the other hand, reduced purchases of financial services will continue to cause service expenditures to grow less than anticipated in the forecast.

Higher sticker prices on new automobiles should cause some slowing in sales as new model cars are introduced in October. Also, a return to more normal weather in September should reduce utility consumption. Thus, spending could slow significantly in that month and remain sluggish in October before rebounding in subsequent months.

Construction - Sales of single-family homes slumped nearly 5% in July. This was reflected in reduced permits in that month. However, a rebound in multi-family starts led to slightly higher housing activity. Multiple units probably will continue to perform near current levels next year. However, rising mortgage rates will continue to place a burden upon single-family sales. Thus, housing starts are expected to show a modest downward trend over the next few months.

On the other hand, no significant squeeze in housing activity currently is expected.

After a sharp downward revision in construction expenditures for May and June, expenditures jumped unexpectedly in July. Nevertheless, the total level of construction spending is far below forecasted values. This reduction in activity appears to be equally distributed between nonresidential and residential construction. Only public construction currently is performing above forecasted values. Some settling is expected in the public spending area next month. Despite overbuilding of office space, growth in nonresidential construction should continue as a result of strong industrial activity. On the other hand, orders measured by F.W. Dodge showed a 5% decline in July and are now down 3% for the year. This suggests a leveling of construction expenditures later this year followed by modest declines. Our projections differ slightly from this timing by incorporating weakness in the next few months and then showing a rebound as housing activity strengthens late next year.

Prices of construction goods jumped sharply in July and are now expected to grow more significantly than originally projected. Both land costs and material costs were responsible for the 0.5% increase in construction costs in July.

Business Activity - Orders for aircraft, tanks, and automobiles fell sharply in July. As a result, durable goods orders fell back to only slightly more than May levels. Except for the weakness in automobiles, there was no surprise in the orders report. Apparently, the automobile weakness reflects a desire to adjust inventories through reduced production rather than increased sales incentives in 1988. This strategy is succeeding in bringing automobile inventories into line with anticipated sales. As a result, no further dip in the automobile component of durable goods shipments and orders is anticipated next month. Moreover, military orders now are $1 billion below shipments. Therefore, a moderate rebound is anticipated. Surprisingly, nondefense capital goods orders showed no meaningful retrenchment. This could lead to stronger capital spending in the next few months than has been anticipated. However, shipments continue to lag dramatically behind orders.

Seasonal distortions probably caused the sharp surge in July industrial production. This probably is especially true in the 1% increase in production of industrial materials. In August, a reversal of some of those seasonals will lead to a dip in industrial activity. As a result, capacity utilization will decline, lessening fears of an overheated economy.

Although a rebound in industrial production is anticipated in September, a return to more seasonal weather will cause a significant decline in utility production. This explains the relatively sluggish performance anticipated for that month.

Prices - Is the drought being used as an excuse to raise prices across the board in the supermarket? Preliminary evidence suggests that the answer is yes. Food prices currently are rising faster than had been anticipated by the drought impact alone. This may necessitate an upward revision in our inflation estimates from that factor. However, energy prices, which rose in August, are now coming down. If OPEC continues its 20-million-barrel-per-day level, needs for the heating season will be completely met without any drawdown of inventories. As inventories already are excessive for current use worldwide, such an outcome would put significant downward pressures upon oil prices. We currently feel

that oil prices will, in fact, firm in the winter following a very shaky fall. Nevertheless, it appears that oil prices could average slightly less in 1989 than the $16.50 per barrel projected for 1988.

An acceleration in the GNP deflator despite minimal adjustments in the fixed weighted indices is the result of composition shifts and improving terms of trade. The terms of trade improvement is largely the result of the drought, although it is also partially from recent strengthening in the dollar. As this strengthening is not expected to persist, the relative surge in the GNP deflator should diminish, but not until the second half of 1989.

Miscellaneous - While a dip in the leading indicators during July was not a surprise, the fact that seven of the nine reported indicators were down was a bit more widespread than merely an adjustment of unsustainable orders. Indeed, if June is viewed as the atypical month, the leading indicators are showing no improvement. Sluggish growth in the money stock relative to consumer prices along with an anticipated dip in stock prices will continue to restrain any expansion in the leading indicators. However, a rebound in the workweek in September should create a momentary strengthening of the index.

Although the argument about accumulating inventories abroad is compelling and would suggest that net exports could deteriorate, our current projections on merchandise trade balances have only partially adjusted for this. Thus, our trade balances could deteriorate more than currently anticipated. If so, the currency index could fall more sharply than originally projected. Indeed, it appears that the recent dollar surge was only temporary.

FINANCIAL MARKETS

Despite robust automobile sales, the household sector appears to be trying to increase savings. At the same time, rising mortgage rates are beginning to reduce net additions to mortgage debt by the household sector. If this savings trend continues, the household sector will be an increasing net contributor to credit markets in the months ahead.

A sluggish economy probably will add to the government deficit. However, the economy is not that sluggish. Indeed, when the consolidated federal deficit is combined with state and local surpluses, government debt as a share of GNP actually declines by 0.5 percentage points in the next twelve months. Thus, government borrowings are no longer a factor leading to upward pressures upon interest rates. No new administration initiatives are anticipated to alter this improving debt position through the first half of 1989.

Corporate profits were much stronger than anticipated in the second quarter and may also be stronger than expected in the summer months. Since the inventory adjustment is occurring abroad, this will not have a dramatic impact upon domestic borrowings. Indeed, nonfarm inventories probably are gradually increasing. Strong capital spending programs also suggest that corporations will need to borrow more in the second half than earlier in the year. Nevertheless, when the household, government, and corporate factors are combined, a strong case develops for little movement in interest rates either up or down.

Thus, the current direction in the bond market appears to be more heavily dependent upon sentiment of foreign investors than normal. As the dollar

rallies, foreign investors favor American assets. Interest rate differentials greatly support dollar-based investments if the dollar maintains its current values. However, if the dollar reverses direction, as anticipated here, foreign investors soon will seek alternatives to dollar-based assets. However, the obviously overvalued Japanese equity markets do not provide the alternatives they did a year ago. For this reason, foreign investors may only grudgingly withdraw from American assets under current interest rate differentials even after the dollar resumes its decline. Nevertheless, that should be sufficient to raise interest rates modestly for the remainder of this year and early into next year.

Also, the Federal Reserve probably will again exert its restraint when industrial growth resumes in the fall. Inflationary pressures still appear to be intensifying, despite the significant decline in oil prices. Indeed, a Federal Reserve-induced inversion of the yield curve is possible early in 1989. However, unlike previous inversions, where short-rates rose more rapidly than long-rates, it is possible that this inversion could occur with long-term rates declining as short-term rates rally. This would occur as investors anticipate that an increase in short-term interest rates will slow economic activity.

Equity Markets - Once again, our equity forecasts appear to be anomalous with other adjustments. Because of stronger profit gains in the second quarter than had been anticipated, adjusted profits appear to be stronger than contained in the forecast. At the same time, long-term interest rates, while rising, are not expected to rise as rapidly as previously projected. Normally, these adjustments should lead to higher equity values than originally projected.

However, the gradual withdrawal of foreign investors and a slightly overvalued condition for the equity markets according to prevailing second-quarter profits and interest rates combine to lead to only a modest upward revision in equity values. Indeed, Federal Reserve restraint could lead to a significant decline in stock market prices during the fall.

On the other hand, there are no signs of a new crash in equity values.

Purchases of interest-sensitive securities probably is still are premature. However, the risks according to our forecasts are relatively modest. Indeed, some utilities probably are good buys at the present time.

Strong capital spending programs into 1989 indicate that the capital goods sectors should perform well. Also, some producers of industrial materials, such as paper, rubber, chemicals, plastics, and metals all should continue to perform adequately, if not slightly better, than the overall market. However, fears of a recession later in 1989 could reduce the attractiveness of those issues by that time.

Obviously, export-oriented companies should be avoided at this time. In addition, the blue chip companies probably will underperform the economy, as they normally are the issues that foreign investors hold in their portfolios. Our current projections suggest that the Dow Jones will break below the 2000 level before the end of this year and possibly could test the 1740 lows established last October. However, such a test would be successful and the equity markets would then be able to move upward.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	105281	105281	125.1	125.1	114713	114713	5.4	5.4	178.0	178.0
May	105502	105489	124.4	124.4	114195	114195	5.6	5.6	178.6	178.7
June	105848	106057	125.3	125.4	115018	115018	5.3	5.3	178.5	178.6
July	106075	106257	125.6	126.4	115127	115059	5.4	5.4	179.3	179.3
August	106295	106476	125.9	125.5	115226	115180	5.4	5.6	180.1	179.4
September	106560	106734*	126.1	126.4*	114974	115563*	5.3	5.4*	180.8	180.2*
October	106753	106982	126.3	127.0	115543	115876	5.3	5.3	181.3	181.0
November	106900	107123	126.5	127.3	115881	116008	5.3	5.2	181.8	181.8
December	107048	107346	126.7	127.5	116220	116254	5.2	5.2	182.4	182.9
January 1989	107309	107563	127.0	127.8	116489	116564	5.1	5.0	183.2	183.6
February	107627	107812	127.4	128.0	116750	116855	5.0	5.0	184.0	184.2
March	107948	107992	127.7	128.2	117012	117039	5.0	5.0	184.8	184.9
April	108062	108186	127.8	128.5	117143	117284	5.1	4.9	185.3	185.5
May	108174	108347	128.0	128.6	117292	117470	5.0	4.9	185.9	186.1
June	108290	108502	128.1	128.8	117453	117666	5.0	4.9	186.4	186.7
July	108483	108669	128.3	128.9	117638	117858	4.9	4.9	187.2	187.4
August	108754	108812	128.6	129.1	117837	118005	4.9	4.9	188.0	188.1
September	109021	108992	128.8	129.2	118030	118205	4.9	4.9	188.8	188.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	3.996	3.996	2.394	2.394	89.5	89.5	3.352	3.352	3.263	3.263
May	4.014	4.021	2.407	2.409	152.4	156.2	3.434	3.441	3.282	3.285
June	4.042	4.046	2.425	2.427	149.8	145.1	3.463	3.466	3.313	3.321
July	4.064	4.071	2.440	2.452	145.3	149.5	3.475	3.487	3.329	3.338
August	4.087	4.101*	2.453	2.471*	140.2	153.2*	3.483	3.512*	3.343	3.359*
September	4.110	4.124	2.466	2.486	127.0	160.0	3.488	3.531	3.358	3.371
October	4.132	4.147	2.478	2.502	134.3	167.9	3.509	3.549	3.375	3.381
November	4.153	4.168	2.490	2.515	144.5	161.7	3.537	3.566	3.393	3.404
December	4.175	4.194	2.502	2.531	153.8	162.7	3.565	3.587	3.411	3.424
January 1989	4.192	4.216	2.521	2.548	158.5	181.4	3.590	3.626	3.431	3.445
February	4.231	4.242	2.543	2.562	154.3	190.1	3.605	3.654	3.451	3.464
March	4.270	4.268	2.565	2.577	148.9	198.2	3.621	3.678	3.472	3.480
April	4.286	4.295	2.574	2.593	149.4	193.2	3.641	3.694	3.492	3.501
May	4.298	4.315	2.584	2.604	143.7	188.1	3.656	3.710	3.512	3.522
June	4.311	4.340	2.593	2.618	136.8	187.4	3.672	3.731	3.533	3.544
July	4.339	4.362	2.610	2.631	139.4	184.0	3.691	3.748	3.552	3.564
August	4.368	4.387	2.627	2.647	139.3	183.0	3.710	3.769	3.570	3.586
September	4.396	4.411	2.645	2.661	140.4	184.0	3.729	3.788	3.588	3.604

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	3164.2	3164.2	442.3	442.3	1025.7	1025.7	1696.2	1696.2	2565.9	2565.9
May	3182.7	3185.3	445.0	445.1	1030.3	1038.1	1707.5	1702.1	2569.7	2572.6
June	3213.5	3221.4	453.6	457.1	1034.8	1043.1	1725.2	1720.7	2587.1	2595.2
July	3226.4	3237.1	450.9	457.1	1039.2	1047.1	1736.3	1732.9	2587.3	2598.1*
August	3244.5	3257.8*	454.5	460.7*	1043.1	1053.3*	1746.9	1743.8*	2593.5	2604.5
September	3255.4	3269.4	455.4	460.6	1047.3	1058.2	1752.7	1750.6	2593.9	2603.7
October	3273.2	3278.8	456.3	454.1	1051.5	1062.2	1765.4	1762.5	2597.8	2601.4
November	3290.8	3301.3	457.1	459.8	1056.1	1067.7	1777.6	1773.8	2601.4	2609.6
December	3308.7	3320.6	458.2	461.8	1061.0	1073.5	1789.5	1785.3	2605.3	2616.2
January 1989	3328.2	3340.2	459.5	464.7	1066.4	1077.9	1802.3	1797.6	2610.4	2621.2
February	3347.5	3358.5	460.6	464.9	1071.1	1084.1	1815.8	1809.5	2613.2	2623.9
March	3365.4	3373.9	461.7	463.5	1075.8	1089.0	1827.9	1821.4	2614.9	2624.4
April	3385.7	3393.8	461.9	464.1	1083.4	1095.9	1840.4	1833.8	2616.5	2625.9
May	3405.8	3414.1	461.5	465.2	1091.2	1103.3	1853.1	1845.6	2617.8	2627.9
June	3429.5	3435.1	464.7	465.1	1099.0	1111.5	1865.8	1858.5	2621.9	2630.4
July	3444.4	3454.8	461.0	464.8	1104.5	1116.4	1878.9	1873.6	2623.3	2635.1
August	3464.3	3476.0	462.9	467.6	1109.9	1122.5	1891.5	1885.9	2628.5	2640.7
September	3482.0	3493.2	464.2	467.4	1114.4	1127.9	1903.4	1897.9	2629.9	2641.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	131.72	131.72	20.85	20.85	10.5	10.5	81.30	81.30	29.57	29.57
May	132.05	132.83	20.95	20.93	10.3	10.3	81.77	82.42	29.33	29.49
June	132.77	133.39	20.85	21.14	10.6	10.6	82.23	82.66	29.69	29.59
July	132.82	134.02	20.91	20.91	10.4	10.7	82.58	82.96	29.33	30.15
August	133.73	134.91*	20.68	20.85*	10.8	10.9*	82.89	83.45*	30.16	30.61*
September	134.06	135.29	20.64	20.80	10.8	10.9	83.22	83.84	30.20	30.65
October	134.40	134.88	20.88	20.89	10.5	10.4	83.56	84.16	29.96	29.83
November	134.85	135.95	20.79	20.96	10.6	10.6	83.92	84.59	30.14	30.40
December	135.36	136.64	20.75	20.90	10.7	10.7	84.31	85.05	30.30	30.69
January 1989	135.94	137.31	21.21	20.98	10.5	10.8	84.74	85.40	29.99	30.93
February	136.44	137.82	21.03	20.95	10.6	10.8	85.12	85.89	30.29	30.98
March	136.93	138.05	21.06	21.07	10.6	10.6	85.49	86.28	30.38	30.70
April	137.56	138.67	21.38	21.23	10.5	10.5	86.09	86.83	30.09	30.61
May	138.13	139.38	21.49	21.28	10.4	10.5	86.71	87.41	29.93	30.69
June	139.11	140.01	21.57	21.35	10.5	10.4	87.33	88.06	30.21	30.60
July	139.14	140.37	21.55	21.46	10.1	10.3	87.77	88.45	29.82	30.46
August	139.78	141.16	21.57	21.55	10.2	10.4	88.20	88.93	30.01	30.68
September	140.28	141.57	21.79	21.60	10.1	10.4	88.56	89.36	29.93	30.61

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	1.584	1.584	1.093	1.093	1.449	1.449	402.7	402.7	348.2	348.2
May	1.384	1.393	0.996	0.996	1.436	1.436	407.1	402.3	350.2	346.1
June	1.454	1.454	1.098	1.098	1.489	1.493	408.5	396.2	350.6	340.3
July	1.526	1.489	1.105	1.080	1.443	1.413	408.8	401.0	350.3	342.8
August	1.481	1.478*	1.073	1.056*	1.392	1.392*	409.0	395.9*	349.9	337.5*
September	1.448	1.459	1.050	1.039	1.365	1.378	408.6	397.2	349.2	337.8
October	1.459	1.481	1.046	1.045	1.372	1.393	410.4	400.0	349.6	339.0
November	1.465	1.489	1.040	1.053	1.380	1.407	412.4	402.8	350.1	340.2
December	1.462	1.474	1.036	1.051	1.382	1.382	413.9	403.2	350.2	339.4
January 1989	1.458	1.469	1.035	1.026	1.365	1.376	414.4	404.4	349.7	339.5
February	1.450	1.455	1.040	1.031	1.350	1.364	416.8	405.6	350.8	339.4
March	1.446	1.437	1.031	1.006	1.354	1.338	418.4	404.0	351.0	336.9
April	1.440	1.451	1.026	1.009	1.343	1.350	420.2	406.8	351.6	338.2
May	1.443	1.470	1.020	1.020	1.345	1.379	420.6	409.6	351.1	339.1
June	1.437	1.487	1.014	1.015	1.350	1.383	420.3	412.1	349.7	340.0
July	1.409	1.487	1.001	1.016	1.317	1.391	422.5	414.5	350.3	340.9
August	1.402	1.483	0.996	1.022	1.296	1.395	423.9	417.6	350.3	342.3
September	1.396	1.476	0.990	1.020	1.301	1.390	425.3	419.6	350.6	342.8

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	128.3	128.3	79.1	79.1	195.3	195.3
May	134.8	132.3	78.9	80.1	193.4	189.9
June	135.9	130.6	79.4	78.3	193.2	187.3
July	136.4	131.5	78.9	81.2	193.5	188.3
August	136.9	130.8*	78.8	78.4*	193.3	186.7*
September	136.5	130.9	78.8	78.9	193.3	187.4
October	137.0	132.6	79.0	80.2	194.4	187.2
November	137.4	133.5	79.2	80.5	195.8	188.8
December	137.8	133.0	79.2	80.1	196.9	190.1
January 1989	138.6	133.8	79.6	80.6	196.2	190.0
February	139.8	134.5	80.1	81.4	196.9	189.7
March	141.1	134.9	80.5	80.3	196.8	188.8
April	142.0	136.1	80.9	81.6	197.3	189.1
May	141.5	136.5	81.2	82.5	197.9	190.6
June	140.3	136.3	81.5	82.9	198.5	192.9
July	142.4	136.6	82.1	83.4	198.0	194.5
August	143.3	137.9	82.8	83.9	197.8	195.8
September	144.2	138.5	83.5	84.6	197.6	196.5

Fore. = August Forecast
C.E. = Current Expectations
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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	340.9	340.9	117.27	117.27	33.49	33.49	31.07	31.07
May	343.1	340.1	115.10	115.37	31.50	31.52	31.76	31.67
June	344.9	342.0	125.23	125.44	34.57	35.46	31.98	31.82
July	346.3	343.5	118.46	116.53	31.86	35.77	32.07	31.98
August	348.8	345.2*	119.63	117.35*	32.15	35.63*	32.17	32.13*
September	350.2	346.8	120.15	118.94	32.36	34.21	32.26	32.25
October	352.9	347.9	119.11	118.43	32.53	34.05	32.53	32.73
November	355.1	349.5	120.43	119.52	32.93	34.29	32.67	32.66
December	357.3	351.1	121.62	121.26	33.46	34.88	32.82	32.94
January 1989	359.5	353.0	119.85	118.85	32.55	33.29	33.02	32.86
February	361.2	355.2	120.36	116.93	32.93	32.94	33.20	33.26
March	363.0	356.8	121.45	117.78	33.14	33.15	33.38	33.45
April	365.6	358.5	121.89	118.85	33.48	33.46	33.46	33.56
May	368.1	361.0	122.53	119.93	33.65	33.65	33.55	33.72
June	370.6	363.4	122.76	119.27	33.92	33.45	33.63	33.60
July	372.3	365.5	122.50	118.81	33.98	33.27	33.70	33.51
August	374.5	368.0	121.89	119.94	33.91	33.46	33.83	33.64
September	376.8	369.4	123.26	121.62	33.84	33.81	33.96	33.78

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	723.7	723.7	8.47	8.47	135.4	135.4	82.6	82.7
May	728.4	728.4	8.37	8.38	136.1	136.1	82.9	82.9
June	732.0	733.9	9.07	8.72	136.6	136.6	83.1	83.1
July	736.1	738.3*	8.94	8.51	137.3	137.7	83.3	83.5
August	740.3	742.6	8.63	8.62*	137.0	137.4*	83.0	83.1*
September	744.6	746.9	8.65	8.65	137.6	137.6	83.2	83.1
October	748.7	750.2	8.70	8.61	138.2	138.1	83.4	83.3
November	753.5	753.4	8.75	8.70	138.6	138.5	83.5	83.4
December	758.1	756.9	8.75	8.76	139.0	138.9	83.7	83.5
January 1989	761.9	761.1	8.83	8.81	139.5	139.3	83.8	83.6
February	765.7	765.4	8.89	8.86	140.0	139.9	83.9	83.9
March	768.5	768.8	8.95	8.92	140.5	140.4	84.1	84.1
April	773.6	773.2	9.15	9.05	141.1	141.0	84.2	84.3
May	781.0	778.5	9.02	9.01	141.3	141.2	84.2	84.3
June	788.5	783.9	8.96	9.04	141.5	141.4	84.1	84.3
July	793.4	790.5	9.11	9.11	141.6	141.6	84.0	84.2
August	796.0	798.4	9.19	9.15	141.7	141.6	83.9	84.0
September	798.5	803.7	9.26	9.21	141.6	141.7	83.7	83.9

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	117.2	117.2	107.0	107.0	105.6	105.6	120.1	120.4
May	117.5	117.5	107.4	107.4	106.1	106.1	120.6	120.9
June	117.9	117.9	107.8	107.8	106.5	106.5	121.0	121.2
July	118.3	118.3	108.2	108.4	106.9	106.7	121.4	121.7
August	118.8	118.9*	108.7	109.0*	107.3	107.5*	121.8	122.2
September	119.3	119.4	109.2	109.4	106.3	106.6	122.3	122.6
October	119.7	119.8	109.6	109.6	107.5	107.8	122.6	123.1
November	120.1	120.3	110.0	109.9	107.7	108.2	122.9	123.5
December	120.5	120.6	110.3	110.1	107.7	108.4	123.2	123.9
January 1989	121.0	121.1	110.8	110.5	108.3	108.8	123.7	124.4
February	121.6	121.7	111.3	111.0	108.9	109.3	124.3	124.9
March	122.0	122.2	111.6	111.4	109.5	109.8	124.9	125.5
April	122.7	122.8	112.2	111.9	110.1	110.2	125.4	126.1
May	123.4	123.5	112.8	112.3	110.7	110.8	125.8	126.8
June	124.1	124.2	113.4	112.7	111.3	111.3	126.2	127.4
July	124.6	124.6	113.8	113.2	112.0	111.9	126.7	127.9
August	125.2	125.1	114.3	113.8	112.5	112.4	127.1	128.4
September	125.8	125.7	114.8	114.5	111.6	111.8	127.5	129.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	123.3	123.3	109.3	109.3	115.5	115.5	133.3	133.3	115.6	115.6
May	123.9	123.8	109.4	109.4	116.1	116.2	133.8	133.8	116.2	116.2
June	124.2	124.1	109.9	109.9	116.4	116.4	134.3	134.2	116.5	116.4
July	124.7	124.6*	110.1	110.1*	116.8	116.8*	134.8	134.7*	116.7	117.0
August	125.1	125.1	110.3	110.3	117.1	117.3	135.4	135.3	116.9	117.3*
September	125.5	125.6	110.4	110.6	117.4	117.7	136.0	135.9	117.0	117.6
October	126.0	126.0	110.9	111.0	117.9	118.0	136.5	136.4	117.4	118.0
November	126.5	126.5	111.2	111.3	118.4	118.4	136.9	137.0	117.8	118.4
December	127.0	126.9	111.5	111.5	118.8	118.8	137.3	137.5	118.2	118.8
January 1989	127.5	127.4	111.7	111.7	119.5	119.3	138.1	138.1	118.5	119.1
February	128.1	128.0	111.9	112.0	120.0	119.9	138.8	138.7	118.8	119.5
March	128.7	128.6	112.1	112.2	120.5	120.5	139.5	139.3	119.2	119.9
April	129.4	129.2	112.4	112.5	121.4	121.3	140.1	140.0	119.5	120.3
May	130.1	129.9	112.7	112.8	122.5	122.2	140.7	140.6	119.8	120.8
June	130.8	130.6	113.0	113.1	123.6	123.1	141.3	141.2	120.2	121.2
July	131.3	131.1	113.3	113.4	123.8	123.5	142.0	141.8	120.6	121.6
August	131.8	131.6	113.6	113.7	124.0	123.9	142.7	142.5	121.0	122.0
September	132.4	132.2	113.9	114.0	124.2	124.3	143.4	143.3	121.3	122.4

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	-10.27	-10.27	192.8	192.8	4778	4783	3979	3973	-18.3	-23.3
May	-10.93	-9.97	192.6	192.6	4806	4822	3985	3988	-19.6	-29.6
June	-10.10	-12.54	194.9	194.9	4830	4854	3995	4005	-29.1	-34.1
July	-10.76	-12.04*	194.0	192.1	4869	4881	4011	4010	-26.2	-29.2
August	-10.59	-11.63	194.5	192.3*	4885	4905	4011	4014	-23.0	-25.6
September	-10.42	-11.26	195.3	192.8	4908	4926	4013	4018	-20.1	-20.4
October	-10.36	-11.51	194.7	193.5	4934	4950	4024	4022	-20.0	-16.3
November	-10.30	-11.05	194.0	193.3	4965	4980	4040	4033	-18.6	-15.8
December	-10.24	-10.63	193.8	193.6	4997	5008	4056	4042	-18.3	-17.9
January 1989	-9.56	-9.97	193.9	194.0	5034	5046	4070	4056	-19.7	-20.3
February	-9.27	-9.85	192.6	193.7	5065	5094	4075	4078	-21.2	-21.8
March	-8.86	-9.92	192.5	193.5	5097	5113	4081	4074	-22.8	-23.5
April	-8.96	-10.01	193.1	193.5	5128	5152	4089	4086	-27.3	-26.6
May	-8.94	-9.65	193.6	192.8	5159	5192	4101	4095	-30.5	-29.5
June	-8.90	-9.27	193.0	192.1	5189	5222	4112	4099	-33.1	-29.1
July	-8.98	-9.43	192.5	192.0	5220	5257	4120	4111	-31.5	-26.7
August	-9.15	-9.40	192.9	192.3	5241	5301	4124	4128	-30.0	-25.5
September	-8.92	-9.16	192.7	191.8	5262	5321	4127	4125	-28.5	-26.4

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore	C.E.	Fore.	C.E.
April 1988	88.95	88.95	181.4	183.4	8.95	8.95	148.46	148.46
May	89.74	89.74	180.9	183.9	9.23	9.23	144.99	144.99
June	92.58	92.58	182.5	196.4*	9.00	9.00	152.72	152.72
July	95.65	95.53	176.5	198.2	9.23	9.14	150.65	151.13
August	96.20	96.78*	170.4	189.4	9.25	9.34	151.93	150.14*
September	96.86	94.51	169.3	188.6	9.11	9.15	153.24	152.68
October	93.27	90.43	170.5	185.3	9.22	9.20	153.06	150.25
November	89.42	88.62	173.3	185.9	9.53	9.39	151.47	143.76
December	92.41	89.25	176.2	186.8	9.86	9.56	150.16	140.25
January 1989	93.12	90.12	175.0	179.7	10.04	9.79	149.23	141.52
February	93.76	91.65	172.9	179.3	10.16	9.85	147.65	143.65
March	93.62	90.11	170.8	180.5	10.31	9.90	146.16	141.92
April	93.74	92.23	169.5	180.1	10.50	9.86	142.29	140.53
May	93.91	92.88	169.0	179.5	10.43	9.75	139.63	138.81
June	93.75	93.65	170.3	179.1	10.59	9.88	139.98	140.23
July	94.83	94.17	171.5	176.5	10.65	9.80	140.42	142.75
August	96.27	93.12	171.1	173.8	10.61	9.71	143.57	145.53
September	93.60	93.05	171.9	174.9	10.52	9.56	146.71	143.21

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	275.8	275.8	770.2	770.1	2991.9	2991.3	6.87	6.87	6.21	6.21
May	276.7	276.7	770.1	770.2	3003.7	3002.3	7.09	7.09	6.56	6.56
June	277.8	277.8	776.4	776.5	3018.1	3016.2	7.51	7.51	6.71	6.71
July	280.3	280.8	783.5	782.4	3028.9	3025.0	7.64	7.75	7.05	6.99
August	282.3	281.7*	789.6	782.6*	3043.5	3029.8*	7.81	7.96*	7.16	7.43*
September	284.4	283.3	795.5	787.3	3058.2	3048.0	7.96	8.12	7.27	7.47
October	286.0	285.0	799.4	792.3	3076.3	3067.4	8.10	8.10	7.36	7.43
November	287.2	286.4	802.6	796.8	3094.0	3082.8	8.16	8.26	7.42	7.60
December	288.4	288.0	803.7	800.1	3112.5	3095.1	8.22	8.53	7.48	7.89
January 1989	290.3	289.7	808.5	805.4	3133.4	3115.6	8.20	8.96	7.40	8.05
February	292.5	290.9	814.9	809.3	3151.2	3132.7	8.23	9.03	7.35	8.17
March	294.6	292.5	821.3	813.2	3169.4	3149.8	8.26	9.05	7.36	8.12
April	296.3	294.1	824.6	816.4	3185.2	3162.2	8.53	9.13	7.64	8.15
May	297.6	295.6	827.0	819.7	3207.2	3177.0	8.86	9.27	8.03	8.28
June	298.9	297.3	829.5	823.5	3228.9	3191.7	9.19	9.25	8.30	8.25
July	300.5	298.9	835.1	827.4	3246.5	3207.8	9.25	9.23	8.20	8.23
August	302.7	300.5	840.0	832.4	3262.7	3223.8	9.11	9.33	7.92	8.30
September	304.9	302.4	844.8	838.0	3278.8	3245.5	9.05	9.30	7.63	8.29

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1988	9.67	9.67	7.81	7.81	6.86	6.86	6.92	6.92	8.50	8.50
May	9.90	9.90	7.91	7.91	7.19	7.19	7.24	7.24	8.84	8.84
June	9.86	9.86	7.78	7.78	7.49	7.49	7.51	7.51	9.00	9.00
July	10.02	9.96	7.88	7.76	7.73	7.82	7.86	7.94	9.42	9.29
August	10.08	10.12*	7.93	7.83*	7.92	8.30*	8.03	8.38	9.50	9.78
September	10.15	10.03	7.96	7.78	8.05	8.33	8.14	8.46	9.50	10.00
October	10.20	10.05	8.01	7.80	8.15	8.26	8.26	8.40	9.56	10.00
November	10.23	10.21	8.00	7.89	8.22	8.37	8.35	8.51	10.00	10.26
December	10.26	10.38	8.03	8.04	8.30	8.59	8.39	8.70	10.00	10.50
January 1989	10.39	10.65	8.15	8.27	8.30	8.94	8.43	9.05	10.00	10.73
February	10.46	10.73	8.20	8.35	8.34	9.05	8.45	9.22	10.00	11.00
March	10.50	10.78	8.23	8.40	8.40	9.08	8.51	9.25	10.00	11.00
April	10.78	10.72	8.42	8.33	8.59	9.26	8.62	9.36	10.00	11.00
May	10.93	10.65	8.59	8.27	8.82	9.30	8.93	9.43	10.46	11.00
June	11.10	10.77	8.66	8.30	9.15	9.24	9.23	9.38	10.95	11.00
July	11.01	10.70	8.57	8.29	9.26	9.25	9.30	9.36	11.00	11.00
August	10.90	10.64	8.43	8.25	9.10	9.33	9.16	9.45	10.87	11.00
September	10.78	10.60	8.35	8.20	8.98	9.35	9.05	9.44	10.50	11.00

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